Internal Revenue Service

Department of the Ireasury

District Occeptor 1100 Connerce St., Dallas, Texas 75212

1

Date: AUG 16 1995

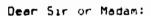
8.

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:



We have considered your application for recognition of $\epsilon_1 emp$ ion from Lederal income tax under section 501 c > (4) of the Internal Revenue Lode.

The information submitted indicates that you were incorporated, the state of on the composition and the first that your further states that your purposes are:

- To enforce, supervise, put into effect and otherwise arr. Aut carb restrictions and covenants as are filed pentaining to properties in Subdivision of acres in Subdivision of
- To promote and supervise the beautification, care, maintenance and upkeep of said subdivision;
- To own, operate, manage and maintain recreational facilities for use by the residents of said subdivision.

On a composed and the change your name to the change your purposes according to this amendment have remained the same.

Article III of your Bylaws states that the owner of each full, assessed lot, during the period of his ownership, shall automatically be a member of your hasocration.

Anticle XII of your Bylaws states that each owner of an accessable lot is obligated to pay you annual assessments which are secured by a continuing lien upon the property against which the assessment is made.

Your 1024 Application for Recognition of Exemption states that your activities are the provision of services to the members of our subdivision. These services include:

- The maintenance of the roadways and esplanades within your subdivision:
- Streat lighting:

	
	The maintenance of swimming pool and playar and facilities:
-	Security patrol;
	The distribution of a newsletter:
-	The coordination of legal motters with Harris County officially and
.,	The administration and enforcement of decorationinting,
You are made up of presidential lots. The following to residential homeowhers and presidential homeowhers are presidential to the following the state of the following the	
The	s necreational facilities which you mainthur and for the duc on , or hembers, esse facilities consist of a swimming pool, libbooks and terris parts. Our so maintain parks and playgrounds which on your to the jubic.
	in primary source of income is regular menter intestments, lots teem and impursements. You also reserve interest in the continuous several or the co
Your expenses include the following:	
	topense vecunity Fool Administration Fool Repair
Your other expenses include street lighting, landscaping, administration and maintenance.	
101 0 n 10	
Section 4.1(a) of your Declaration of Krisland Corp. states that Each lit shall be used only for a living unit and a private garage or tarport, and no it shall be used for business or professional purposes of any Find.	
roun correspondence dated states the following:	
	There are approximately acres within your boundaries:
-	There are no commercial businesses, post offices, on libraries within your boundaries. The elementary schools and churches you have previously stated are within your boundaries actually are not within your boundaries:
-	There are commercial reserves adjacent to your boundaries;
-	The School District serves your area:
-	Since the State of has granted you a non-profit charter, it has approved your boundaries, and thus these boundaries create an independent

哪

community:

- The services you provide are traditionally performed by a governmental units
- Your power to le assess nts is similar to the power of a municipality to levy property taxes;
- Your hoard of directors is similar to a city council;

You bear a reasonably recognizable relationship to an area ordinarily identified as governmental:

fou do not maintain the extensor of any private residence;

Architectural control and deed enforcement is time to cuitting permits, codes, inspections and zoning used by municipalities:

in this correspondence dated ______, you have brought up the <u>Rancho Santa</u> <u>Fe Association vs. U.S. court case.</u> rou have concluded that since you are a housing development which is coextensive with the community it serves, you are rimited to the fancho Santa fe association.

You have provided with this correspondence a map of the boundaries of your association. This map shows three churches and a school which are somewhat outside of your poundaries. There are two schools in the eladracent but outside of your boundaries.

risp provided is a copy of the agreement you have entered into with cont. which is dated to the cont. This agreement calls for two "extra deputies" to devote percent of their working time the subdivisions. You shall pay County the sum of \$ for providing the "extra deputies for the year beginning on the county the sum of \$ for providing the "extra deputies."

Section 50% c) of the Code describes certain organizations exempt from Federal income tax under section 50% (a) and reads, in part, as follows:

(4) Civic leagues or organizations not organized for profit but operated e-clusively for the promotion of social welfame, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or necreational purposes."

Section 1.50(cc)(4)-1 of the regulations provides, if part , as follows:

- (a) 1: In general. A civic league or organization may be exempt as an organization described in section 501(c)(4) if -
 - (1) It is not organized or operated for profit; and
 - (ii) It is operated e-clusively for the promotion of social welfare.

"(a)(2)(i) An organization is operated exclusively for the promotion of social welfare when it is primarily engaged in promoting, in some way, the common good

and general welfare of the people of the community. An inganization embraced within this section is one which is operated primarily for the purpose of bringing about divid betterments and social improvements *** The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any cardidate for public office. Nor is an organization operated primarily for the promotion of social welfare of its primary activity is operating a social club for the benefit, pleasure, or recreation of its members, on is carrying on a business with the general public in a manner similar to apparent their which we consider for profit.***

Revenue Ruling 72-102, 1972-1 C.B. 148 describes an organization formed by a developer to preserve the appearance of a housing development and the maintain streets, sidewalls, and common areas for the use of the considerty which was found to be exempt under Internal Reverse in the first series of the common good and general welfare of the entire community because if owned and maintained centain non-residential, non-commercial properties of the type normally wheel and maintained by municipal governments. Indininistering and entire inglicavenants for preserving the architecture and appear in a first housing near these incidental to the overhiding public terefit.

Revenue Ruling 74-99, 1974-1 C.B. 131, modified become making to 10%. It provides that in order to qualify for exemption of termination 44, a homeowners' association; must serve a momental obtained to the end of the use and enjoyment of the general soll.

According to this revenue ruling, a community within the meaning of section 501(c)(4) is not simply an aggregation of homeowners' bound together in a structured unit formed as an integral part of a pina for the development of a real estate subdivision and the sale ad purchase of homes therein. The term "community" as used in section 501(c)(4) has traditionally been construed as having reference to a geographical unit bearing a reasonably recognizable relationship to an area ordinarily identified as a governmental subdivision on a unit or district thereof. The revenue ruling was intended only to approve ownership and maintenance by a homeowner, "Absolutation of such areas as readways and parklands, sidewalls, and street lights, alread to, in the use and enjoyment of which is extended to members of the general public, as distinguished from controlled use or access restricted to the members of the home iners' association.

According to Revenue Ruling 80-63, 1980-1 C.R. 118, no hard and fast nule can be applied as to what constitutes a "community," but that each case must be examined to determine whether the activities of the organization have sufficient community benefit to serve a social welfare purpose under IRC SOlic R4. Although the area represented by an association may not be a community, if the association's activities benefit a community, it may still qualify for exemption. For instance, if the association owns and maintains common areas and facilities for the use and enjoyment of the general public as histinguished from areas and facilities whose use and enjoyment is controlled and restricted to members of the association then it may satisfy the requirement of serving a

Your Declaration of Krisland Corp. prohibits your members from using any lots for business or professional purposes of any kind

100 P. Sale

Because you are not a community, and you restrict the use of , our swimming pool, clubhouse and tennis courts to your members, you are similar to the organization described in question 2 of the Revenue Ruling 90.53. It states that an organization that is not a community may not be exempt if it restricts the use of its recreational facilities to members of the essociation.

You are organized and operated for the private benefit of your members. The security services which you provide are over and above those services normally provided a neighborhood by governmental entities. The percent of your expenses in these security services. Your members also here? A privately from your recreational facilities.

You also do not meet one of the basic requirements for exempt. A under section 501(c)(4) - that you operate in a non-profit manner. The accumulation of in capital funds plearly shows that you operate in a for profit manner.

Accordingly, it is held that you are not entitled to election for a federal income tak as an organization described in section 501 of 1 or 1 or 1 you are required to file tederal income tak returns on Form 1120.

As a homeowners' association, you may qualify for treatment order section 520, in this letter we are not miling on the question of whether x , valify for treatment under section 520. However, if you believe voo question for such treatment, you should file form 1/20-H when due.

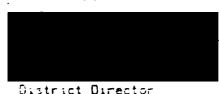
If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the assue, please indicate this in your protest. The enclosed Publication 992 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report on letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a unitten protest, please sign and neturn form 6018 in the enclosed self-maddressed envelope as soon as possible.

If you have any further questions, please contact the person undie name and telephone number are shown at the beginning of this letter.

Gincerely,



Enclosures: Publication 892 Form 6018